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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MAY 14, 1984 VOLUME XXI, NUMBER 19

The Business Of America . . .

The small business economy is so much a part of everyday life that it is easily overlooked. There are about 14 million small business enterprises in the United States today, comprising 97 percent of all American companies. Ten million are sole proprietorships, two million are corporations, and two million, partnerships. Their contributions to the nation's economic health are manifold: small businesses develop new products and services and provide new jobs, technological innovations, entrepreneurial initiative, managerial talent, new skills and training, as well as spur older, established companies to greater efficiency and tougher competitiveness.

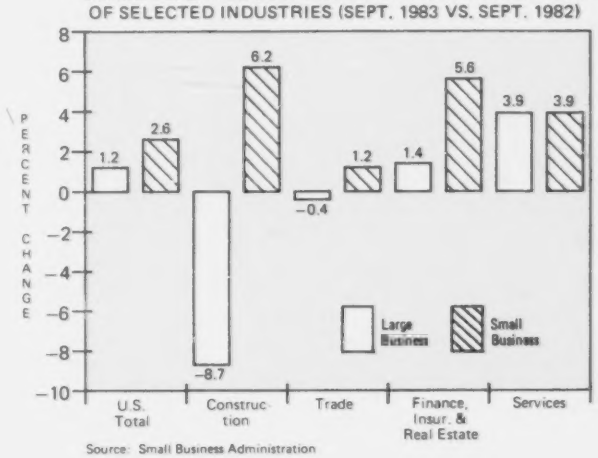
Small companies are usually deeply rooted in their local communities and neighborhoods and provide entry-level jobs for teenagers, women, minorities and immigrants. In fact, new small businesses have become the main driving force behind the nation's economic growth. According to statistics issued by the Small Business Administration, small businesses employ almost half of the nation's private nonfarm workers and generate approximately 38 percent of the gross national product.

. . . Is Small Business . . .

The effects of small businesses have not always been so important. Between 1950 and 1970, big companies or government created three out of every four new domestic jobs. However, from 1970 to 1980, small businesses provided most of the 20 million new jobs generated. What is more, this trend has accelerated during the 1980s. Even during 1981 and 1982, when the worst recession in decades caused massive layoffs in the steel, auto and other basic industries, small businesses posted a relatively strong performance, demonstrating their ability to adapt and grow in times of economic adversity. An estimated one million new businesses were formed in the early 1980s and, according to the Small Business Administration, small enterprises with under 20 employees provided most of the 982,000 net new jobs created in the U.S. between 1980 and 1982. They generated over 2.6 million new jobs, more than offsetting the 1.7 million positions lost by larger businesses.

The brighter economic picture in 1983 motivated a record number of people to become their own bosses. Indeed, an entrepreneurial boom of unprecedented dimensions took place in 1983. Estimates by Dun & Bradstreet indicate that business incorporations (nearly all of them small companies) reached 600,000 in 1983—a 5.2 percent increase over the number of filings recorded in 1982 and well above the previous all-time high of 580,000 recorded in 1981.

PERCENT CHANGE IN EMPLOYMENT IN SMALL VS. LARGE BUSINESS-DOMINATED SUBSECTORS OF SELECTED INDUSTRIES (SEPT. 1983 VS. SEPT. 1982)



Source: Small Business Administration

New companies represent a wide spectrum of business activities. Perhaps to the surprise of many, high-technology starts comprise only a fraction of total new business formations. Service firms are the fastest growing, with particularly high rates of formation in such areas as financial services, fast foods, legal services, insurance, physical fitness and air transportation. Thus, small businesses are fully participating in the transformation of the U.S. from a goods-producing to an information-based and service-oriented economy. In 1982, according to the Small Business Administration, service firms accounted for 23.4 percent of all small businesses, compared with 19.1 percent in 1976. By contrast, the share of retail trade firms declined during the same period to 29.1 percent in 1982 from 34.4 percent in 1976.

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During 1982 and 1983, business starts increased faster in deregulated industries than in the overall economy. Such incorporations rose 33 percent in the deregulated financial services sector, and 15 percent in the transportation and communications sector compared with 13 percent in the economy as a whole. Starts of nonbank credit agencies rose 68 percent during 1982 and 1983, whereas no major increases occurred in this sector prior to 1982.

Self-employed workers, who comprised only 7.6 percent of the civilian labor force in 1983, have made a large contribution to the current economic recovery. The number of self-employed persons increased by almost half a million in 1983, representing a 6.6 percent rise, compared with a 3.7 percent rise in wage and salary employment. Not surprisingly, this group did better financially than those who work for others. Small business revenues, as measured by the income of proprietorships and partnerships, grew 18 percent in 1983. By contrast, wage and salary income increased only 3.1 percent for the nation as a whole.

. . . Providing Jobs And Innovation

The contribution of small businesses to the nation's economic health is most visible in those industries for which small and large business-dominated industry subsectors can be identified. In the 12 months ending September, 1983, small business-dominated subsectors registered an employment gain of 2.6 percent, compared with an employment

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit	5/9/84		
U.S. Gov'ts and Agencies Owned Outright & RPs	163.865	– 6.436	+16.899
Loans to Depository Inst.	1.098	+ .069	+ .391
Float	.890	+ .324	– 1.272
Total Reserve Bank Credit	175.408	– 6.344	+15.907
Treasury Deposits with Federal Reserve Banks	5.651	– 9.816	+ 1.839
Currency in Circulation	171.424	+ .965	+12.933
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	114.095	– 1.274	+ 3.214
	5/9/84		
Member Bank Reserves:			
Total Reserves Held	35.876	– 1.060	+ 1.917
Excess (Deficiency)	.608	+ .048	+ .200
Net Borrowed Reserves	.277	– .677	+ .575
Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (4/30/84)	534.6	+ 3.5	+ 7.5
M2 (April '84)	2,242.2	+ 6.5	+ 7.7
M3 (April '84)	2,790.4	+ 10.1	+ 9.4
Domestic Nonfinancial Debt (4th Q'83)	5,219.0	+ 10.6	+ 10.8

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 5/11/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.85%	10.20%	10.50%
* Federal Agencies	10.35	11.15	11.55
* Project Notes—Taxfree (46% Taxable Equivalent)	10.46	10.74	12.41
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	11.50	11.95	12.65

‡Finance Company Paper—Prime

5- 14 days	10.60%
15- 29 days	10.65
30- 59 days	10.55
60- 89 days	10.40
90-179 days	10.25
180-239 days	10.25
240-270 days	10.25

‡* Bankers' Acceptances

Jun.	10.90%
Jul.	11.10
Aug.	11.15
Sep.	11.30
Oct.	11.30
Nov.	11.20

‡Industrial Paper—Prime

30- 89 days	10.88%
90-120 days	11.13

†Federal Funds Effective Rate 10.60%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'84	$ 3,541	$ 3,436	$ 3,172
Gross National Product (1972 Dollars)*	1st Q'84	$ 1,604	$ 1,573	$ 1,490
Percent Change, Annual Rate	1st Q'84	8.3	5.0	2.6
Change in Consumer Prices (new series)*	Mar '84	2.4%	4.8%	1.2%
Change in Producer Prices*	Apr '84n	0.0%	6.0%	0.0%
Civilian Employment (Thousands of Persons)†	Apr '84	104,402	104,140	99,606
Unemployment as % of Civilian Labor Force†	Apr '84	7.8%	7.8%	10.2%
Personal Income*	Mar '84	$ 2,941	$ 2,927	$ 2,670
Leading Indicators Composite Index (1967=100)†	Mar '84	165.5	167.3	150.2
Industrial Production Index (1967=100) †	Mar '84	160.7	160.0	140.0
Net Change in Consumer Installment Credit †	Feb '84	$ 6.61	$ 4.47	$ 0.74
U.S. Merchandise Trade Balance †	Mar '84	–$ 10.26	–$ 10.09	–$ 3.70
Plant and Equipment Expenditures*	2nd Q'84	$335.40(a)	$332.66(a)	$293.46
Private Housing Starts (Thousands of Units)*	Mar '84	1,638	2,231	1,592
New Construction Expenditures*	Mar '84	$ 295.6	$ 292.0	$ 241.9
Total Business Inventories †	Feb '84	$ 527.0	$ 517.8	$ 507.7
Total Business Sales †	Feb '84	$ 399.5	$ 400.9	$ 341.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

gain of 1.2 percent in large business-dominated subsectors (see chart on page 1).

Small enterprises have traditionally been the major innovators in American business. According to the Small Business Administration, they have introduced 2½ times as many new products as large companies and launched new industries ranging from semiconductors to gene splicing. Even smokestack industries are dependent on entrepreneurial innovation for the streamlining they urgently need to become more competitive. Such labor-saving devices as microprocessors and industrial robots developed by small high-technology firms are crucial in the current efforts to modernize auto assembly plants and steel mills. Moreover, small businesses are a challenge to older, established companies, forcing them to improve their productivity in order to compete.

The importance of small business in the American economy is being recognized by Federal and local governments. President Reagan earlier this year declared the week beginning May 6, 1984 as Small Business Week. Over 800 research awards to small firms, amounting to $40 million, to develop products for government use were made in 1983 by the new Federal Small Business Innovation and Research program. What is more, a number of states have taken steps to help fund new companies. M

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (4/25/84)	141,228	– 14	–10,171
New York City (5/2/84)	29,084	+ 286	– 4,746
Commercial Paper (5/2/84)	208,715	+ 832	+37,319

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/25/84)	234,707	+ 288	NA*
New York City (5/2/84)	62,256	+ 647	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/25/84)	597,667	+ 854	NA*
New York City (5/2/84)	136,574	+ 1,734	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 5/11/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.30%	+ .24	+ 1.90
180-Day Bills†	10.90	+ .20	+ 2.30
Longest Bills†	11.55	+ .40	+ 2.75
Recent Issues:			
11¾s 4/30/86	12.50	+ .57	
12s 3/31/88	13.00	+ .55	
13⅛s 5/15/94 (When Issued)	13.50	NA	
13¼s 5/15/14 (When Issued)	13.55	NA	
Municipals:			
Bond Buyer–20 Bond Index* (5/10/84)	10.19%	+ .20	+ 1.33
Blue List Total ($ Million)	$1,485	– $ 68	+ $ 2
30-Day Visible Supply ($ Million)	$3,057	+ $527	– $1,503
Total	$4,542	+ $459	– $1,501
Corporates:			
Moody's Aa Composite (5/10/84)	13.96%	+ .20	+ 2.14
30-Day Visible Supply ($ Million)	$1,765	– $240	+ $ 541
Stocks:			
Dow-Jones Averages:			
Industrials	1,157.14	– 8.17	– 61.61
Transportation	502.06	– 5.55	– 45.83
Utilities	129.29	– 2.80	– .32
65 Stocks	454.16	– 1.81	– 24.90
Standard and Poor's 500 Stocks	158.49	– .62	– 6.41
N.Y.S.E. Composite Index	91.23	– .52	– 3.84
N.Y.S.E. Avg. Daily Vol. for Week (000's)	99,354	+ 3,062	+ 6,372

* 46% Taxable equivalent 18.87%.

† Bond equivalent.

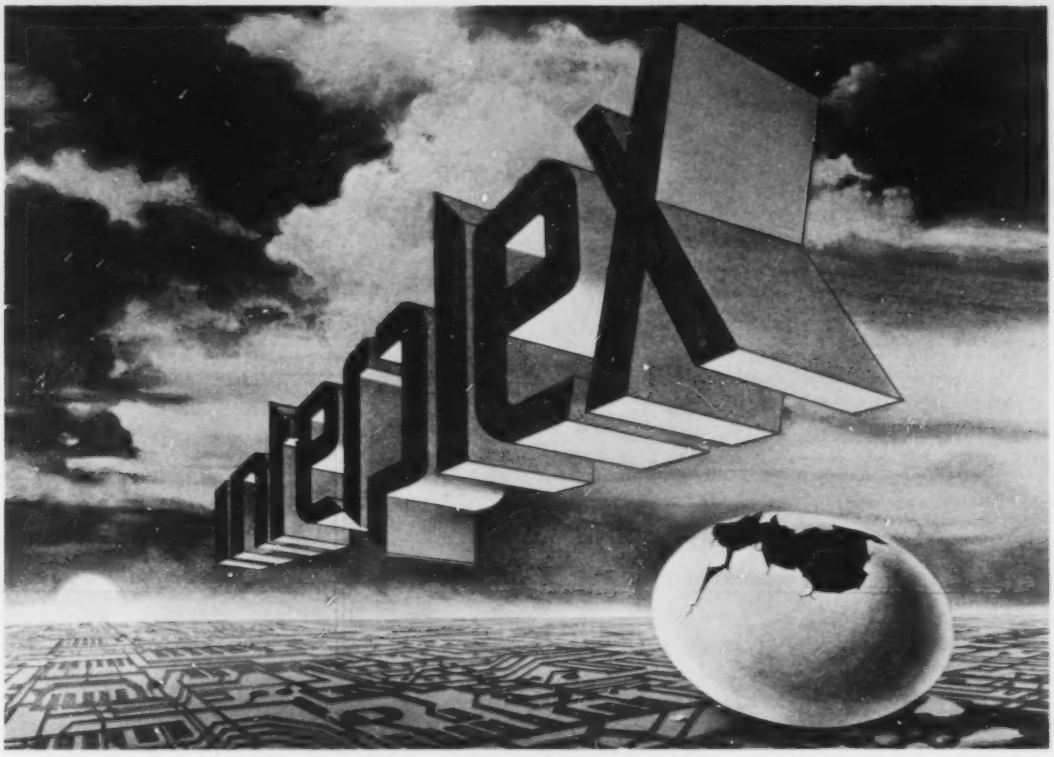
International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/11/84	Week Ago
Overnight	10.06%	9.75%
1 month	10.63	10.63
3 month	11.81	11.00
6 month	12.13	11.38
1 year	12.75	11.88

EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.90%	12.60%
Long Term (7 to 15 yrs.)	13.10	12.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/11/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01772	56.42
Canada	.7719	1.2955
Denmark	.0986	10.1430
France	.1175	8.5100
Germany	.3608	2.7715
Italy	.0005857	1707.30
Japan	.004343	230.23
Mexico	.005076	197.00
Netherlands	.3213	3.1125
Switzerland	.4373	2.2865
U.K.	1.3827	.7232



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